

CABLE SECRETARIAT DISSEMINATION

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ACTION NO.

PRECEDENCE

24 SEP 70 CITE SANTIAGO

Declassified and
Approved for Release
July 2000

IMMEDIATE DIRECTOR

24 SEP 70

FOLLOWING FOR PASSAGE TO: UNDERSEC JOHNSON AND HENRY KISSINGER
FROM : AMB KORRY

1. ZALDIVAR ECONOMIC REPORT TO NATION LAST NIGHT EXCELLENTLY
PREPARED AND DESIGNED TO WORSEN BAD SITUATION. (I SENT SANTIAGO
UNCLASSIFIED SO THAT WASHINGTON CAN IF IT SO DECIDES GIVE WIDEST
DISTRIBUTION ^{TO} US PRESS AND MORE IMPORTANTLY BUSINESS AND BANKING
COMMUNITY.)

2. FREI HAS RULED OUT CABINET RESIGNATIONS FOR THE TIME
BEING. PRETEXT IS THAT IF MILITARY ENTERED GOVT THEY WOULD PROBABLY
ONLY DO NOTHING MORE THAN ASSURE A CONSTITUTIONAL PROCESS THAT WOULD
ELECT ALLENDE.

3. FREI MET WITH ARMY CINC SCHNEIDER

YESTERDAY

--A) DISABUSE SCHNEIDER
OF ANY HOPE IN THE CONGRESSIONAL FORMULA; B) INFORM SCHNEIDER
IT WAS MILITARY OR NOTHING; C) TELL SCHNEIDER THAT MARXIST GOVT
WOULD PROBABLY PROVOKE END TO US MILAID AND (D) FREI WOULD GIVE
SIMILAR BRIEFING TO OTHER MILITARY.

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4. SCHNEIDER INTERPRETED FREI TO MEAN SUPPORT FOR HIS CONSTITUTIONALIST DOCTRINE. HE HAS CONVOKED "JUNTA DE GENERALES" TO EXPLAIN SITUATION TODAY. THERE WILL PROBABLY BE OPPOSING POINT OF VIEW ARTICULATED. BUT I WOULD GUESS THAT MILITARY WILL NOT BREAK WITH PREVALENT VIEW THAT POLITICIANS GOT COUNTRY INTO MESS AND SHOULD GET US OUT OF IT, NOT VICE-VERSA.

5. EDMUNDO P E R E Z - ZHIGOVICH, THE FREI INTIMATE IN CHARGE OF THE STOP-LLENDE MOVEMENT IN THE PDC JUNTA, INFORMED HIS KEY PARTY WORKERS YESTERDAY MORNING THAT HE WAS DISENGAGING TOTALLY FROM THEIR WORK. HIS PRETEXT WAS THAT THEY HAD USED HIS NAME AND/OR HAD SOUGHT MONEY FROM THE US EMBASSY AND THAT FREI AND HE WERE FURIOUS WITH THEIR INDISCRETIONS WITH FOREIGNERS AND RIGHTISTS.

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6. THE FIRST NEGOTIATING SESSION BETWEEN ALLENDE AND THE PDC LEADERSHIP TOOK PLACE YESTERDAY AFTERNOON. MEETING PUBLICLY DESCRIBED AS CORDIAL. PDC PROMISED TO RELEASE TODAY ITS PRESENTATION BUT EXCELLENT SOURCE TELLS ME ALLENDE BEGGED AND RECEIVED COMMITMENT THAT PDC WOULD NOT INCLUDE IN PUBLIC RELEASE CERTAIN PDC REQUESTS FOR CONSTITUTIONAL GUARANTEES; ALLENDE EXPLAINED THAT PCCH AND HARD-LINE SOCIALISTS UPSET WITH WHOLE MATTER OF GUARANTEES AND WISH TO GIVE ONLY "CLARIFICATIONS." ALLENDE TOLD PDC HE WOULD "HAVE TO MASSAGE" HIS ALLIES AND THAT HE WOULD DO EVERYTHING POSSIBLE TO ASSURE PDC VOTE FOR HIM IN CONGRESS.

7. FREI TOLD [REDACTED] THAT HE HAD TO ABANDON CONGRESSIONAL FORMULA BECAUSE THAT "SCOUNDREL TOMIC" HAD NOT ONLY HANDED OVER PDC TO ALLENDE BUT HAD BRIEFED ALLENDE ON EVERYONE OF THE PDC CONGRESSMAN; FREI SAID ALLENDE NOW HAD MORE DIRT AND LEVERAGE THAN HE (FREI).

8. [REDACTED] THAT FREI LAST NIGHT MET WITH ALLENDE IN THE HOME OF GABRIEL VALEES. [REDACTED] ADDED PERSONAL OPINION

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THAT FREI WAS ARRANGING HIS OWN EXIT FROM A SITUATION HE VIEWS WITH INCREASING PESSIMISM.

9. ALLENDE WILL PROBABLY ANNOUNCE HIS CABINET TOMORROW. ONE POPULAR UNITY BIGWIG (ALFONSO DIVID L A V O N , SECGEN OF API PARTY) SAID THERE WOULD BE THREE EACH COMMUNISTS, SOCIALISTS AND REDICALS AND TWO EACH API, MAPU AND SOCIAL DEMOCRAT. SAID MIN-INTERIOR WOULD BE SILVA S I M M A VERY RESPECTABLE RADICAL AND MASON AND HEAD OF SOVIET-CHILEAN FRIENDSHIP SOCIETY BUT UNDERSIC WOULD BE COMMUNIST. ADDED THAT ALLENDE'S FIRST CHOICE FOR FOREIGN MINISTER WOULD BE VALDES BUT DID NOT KNOW IF LATTER WOULD ACCEPT. A WOMAN SOCIALIST WOULD BE IN NEWLY CREATED MINISTRY OF FAMILY.

10. _____ TOLD ME LAST NIGHT LATER LEAVING LATE AFTERNOON LENGTHY _____ MEETING THAT HAD EDITED ZALDIVAR'S REPORT THAT THOSE SUCH AS HIMSELF WHO WISHED TO STOP ALLENDE WERE NOT GETTING LEADERSHIP FROM FREI. HE KNOW FREI WAS ANTI-ALLENDE, BUT FREI ALWAYS FOUND A REASON FOR NOT TAKING DECISIVE ACTION. FREI DID NOT LIKE ANY OF THE ALTERNATIVES. FREI WISHED TO BE UNBLEMISHED. FREI HOPED THE ARMY WOULD MOVE BUT WOULD GIVE NO

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 ORDER OR SPECIFIC ENCOURAGEMENT. FREI WOULD NOT PROVOKE A CRISIS BY HIMSELF RESIGNING OR LEAVING THE COUNTRY. FREI WOULD PROBABLY SEEK TO MAKE THE BEST OF THE WORST BY HAVING PDC NEGOTIATE AS MUCH AS IT COULD FROM ALLENDE.

11. [REDACTED] THAT THE ONE FACTOR THAT COULD CHANGE THE ENTIRE SITUATION WOULD BE A FASTER DOWNTURN IN THE ECONOMY. IF THAT COULD BE PROVOKED, IT WOULD AFFECT MILITARY OUTLOOK AND EVEN PDC'S, PARTICULARLY IF SUCH DOWNTURN OCCURRED BEFORE THE PDC JUNTA AND REACHED MAXIMUM VELOCITY BEFORE OCT 24TH. HE OFFERED FOLLOWING SPECIFIC SUGGESTIONS:

A) GET US BANKS TO CEASE RENEWING CREDITS TO CHILE OR CHILEAN ORGANIZATIONS AND NO NEW CREDITS. (HE SAID SOME US BANKS STILL DOING BUSINESS AS USUAL.)

B) GET US COMPANIES HERE TO FOOT-DRAW TO MAXIMUM POSSIBLE. THEY COULD WITHOUT TAKING PROVOCATIVE ACTION HOLD OFF ON ORDERS, ON DELIVERIES OF SPARE PARTS, ON EXTENDING CREDITS AND SO ON. HE RECOGNIZED THAT BRITISH DOING THE REVERSE AT FULL [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

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SPEED WITH FRENCH AND ITALIANS NOT ^FAR BEHIND. \$BUT HE SAID THEY COUNT FOR RELATIVELY LITTLE. (FYI GENERAL TIRE COMPANY THER^E, A BIG EMPLOYER, IS NEGOTIATING WITH ^ALENDE.)

C) PASS THE WORK THAT AT LEAST SOME OF THE BUILDING AND LOAN ASSOCIATIONS ARE NEAR BANKRUPTCY AND HE (MASSAD) IS NOT DOING MUCH TO SAVE THEM. WITH A LITTLE PUCH ^SONE OF THE BIGGEST (CALICANTO) AND ONE OF THE SMALLEST (SASA CHILENA) WOLD ^USHUT THEIR DOORS AND START A REAL RUN.

D) DO THE BEST POSSIBLE TO GET ~~APPEL~~ BUSINESSES TO CLOSE THEIR DOORS IN THE NEXT THREE WEEKS.

D) SPREAD THE WORK THAT RATIONING IS PROBABLE. HE QUOTED PUBLIC DECLARATION OF COMMUNIST CONTROLLED CONFEDERATION TO TRADE UNIONS (CUT) STATING THAT WORKERS WOULD EAT UNDER ALLENDE BECAUSE THEY WOULD GET "BONOS" (STAMPS). RUN ON FOOD STOCKS WOULD BE USEFUL AND WOULD INCREASE DEMAND FOR BANK NOTES WITH CENTRAL BANK ALREADY IN VERY SHORT SUPPLY OF NOTES. HE WARNED AGAINST ANY EMPHASIS ON INFLATION SINCE THAT WOULD PROVOKE RUN

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ON DURABLE GOODS AND SPO UP PUBLIC LIQUIDITY WHEN OPPOSITE
GOAL IS DESIRED.

F) HE SAID THERE WOULD BE CONSIDERABLE UNEMPLOYMENT IN
SANTIAGO BY MID-OCTOBER

G) HE NOTED THAT ALESSANDRI'S OWN PAPER
COMPANY HAD YESTERDAY SUBMITTED REQUEST FOR GOVT APPROVAL OF
\$9,000,000 (M) EXPANSION WHICH HE WOULD HAVE TO APPROVE
AFTER SOME DELAYING TACTICS. HE NOTED FIRST NATIONAL CITY BANK
INTENDS TO GRANT \$2,500,000 OF THIS AS LOAN. (I TOLD HIM THAT
ALESSANDRI AND HIS SUPPORTERS INCREASINGLY URIOUS WITH FREI
AND REGARD THE RUBE GOLDBERG CONTRAPTION AS A FREI DOUBLE-
CROSS THAT HAS HURT ALESSANDRI'S PRESTIGE WITHOUT HAVING ANY
REAL INTENT BEHIND IT. I ADDED THAT SOCIALISTS, WITH WHOM
ALESSANDRI HAD ALWAYS HAD GOOD RELATIONS WERE ALSO MASSAGING
THE OLD MAN AS WELL AS SEEKING TO ENTICE RIGHTISTS WITH
PROMISES OF MANAGERIAL JOBS.)

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F) TRY TO HAVE BUSINESS DOWNTURN AFFECT PROVINCES SINCE
FOR THE TIME BEING ONLY SANTIAGO AREA REALLY FEELING PINCH.

12. _____
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